UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

HONEYWELL INTERNATIONAL INC., Plaintiff, v. ICONTROL NETWORKS, INC., and ALARM.COM HOLDINGS, INC., Defendants.	Civil Action No. ____________________ ***Document electronically filed*** **VERIFIED COMPLAINT**

1. Plaintiff Honeywell International, Inc. ("Honeywell") brings this action for injunctive relief under the antitrust laws of the United States to preliminarily and permanently enjoin the acquisition by Alarm.com Holdings, Inc. ("Alarm.com") of Icontrol Networks' Connect and Piper business units ("Icontrol"). Honeywell hereby complains and alleges as follows:

NATURE OF THE ACTION

2. This is a private antitrust action seeking an Order of the Court prohibiting the proposed acquisition (the "merger") of Icontrol by Alarm.com as a violation of the antitrust laws.

3. On its face, the combination of Alarm.com and Icontrol is a classic violation of antitrust law, resulting in market concentration far in excess of the thresholds established both by a long and uninterrupted line of Supreme Court precedent and by the U.S. Department of Justice ("DOJ") and Federal Trade Commission ("FTC") Horizontal Merger Guidelines. As a result of the proposed acquisition, Alarm.com would have approximately a 70% share in the market for the provision of Remote Services for dealer installed security systems. The creation of such concentration, which would injure competition, stifle innovation, and result in higher prices to consumers, is presumptively illegal.

4. Alarm.com's proposed takeover of Icontrol would make Alarm.com the dominant Remote Services platform, giving it the incentive and ability to strangle any potential source of competition. The ultimate and predictable effect would be higher prices for Remote Services to security dealers who purchase those services from Alarm.com and to customers who ultimately pay those fees. The proposed acquisition would not only harm security dealers and consumers, it would also injure Honeywell, a competitor in the provision of Remote Services. As a result of the merger, 70% of the relevant market would be served by a single company, Alarm.com. In this position, Alarm.com would be able to demand that third party manufacturers of security hardware and smart-home devices interoperate exclusively with Alarm.com. Alarm.com thus would be able to use its dominance to bind third parties to its platform, diminishing Honeywell's ability to compete, and further cementing its monopoly power by crippling its sole remaining significant competitor.

5. This private action is specifically authorized under Section 16 of the Clayton Antitrust Act (15 U.S.C. § 26) which provides in pertinent part that "[a]ny person . . . shall be entitled to sue and have injunctive relief . . . against threatened loss or damage by a violation of the antitrust laws." The remedy afforded to private plaintiffs include divestiture, or prohibiting any potential unlawful acquisition. As was unequivocally stated by the United States Supreme Court in *California v. Am. Stores Co.*, 495 U.S. 271, 283 (1990), "[t]he literal text of Section 16 is plainly sufficient to authorize injunctive relief [in favor of a private Plaintiff], including an order of divestiture that will prohibit that conduct from causing that harm."

6. The private action to vigorously challenge an acquisition is encouraged by Congress and the Supreme Court. In strong and unmistakable language, the Supreme Court has declared: "The Act's other provisions manifest a clear intent to encourage vigorous private

litigation against anticompetitive mergers." *Am. Stores Co.*, 495 U.S. at 284.

7. Honeywell brings this action under this authority of Section 16 of the Clayton Antitrust Act, 15 U.S.C. § 26, and alleges that the proposed elimination of Icontrol by Alarm.com constitutes a substantial threat of antitrust injury because the acquisition would have the effect of substantially lessening competition and creating a monopoly in violation of Section 7 of the Clayton Antitrust Act, 15 U.S.C. § 18. In addition, the contract to eliminate Icontrol constitutes a "contract, combination in the form of a trust or otherwise, or conspiracy" creating an unreasonable restraint of trade in violation of Section 1 of the Sherman Antitrust Act, 15 U.S.C. § 1, in that, among other things, it is a non-trivial transaction between significant rivals, neither of which is a failing company, that eliminates a substantial and growing competitor from the market.

8. Honeywell seeks to preliminarily and permanently enjoin the proposed acquisition of Icontrol by Alarm.com because the unavoidable—and intended—result of the transaction would be a substantial lessening of competition throughout the market for Remote Services for dealer installed security systems. The illegal accretion of market power will allow the merged firm to both raise prices to customers and to marginalize or drive out competitors such as Honeywell, which in turn will further entrench the firm's dominance. No other remedy would adequately protect the market and consumers from this avoidable harm.

THE PARTIES

9. Plaintiff Honeywell is a Delaware Corporation with its principal place of business in Morris Plains, New Jersey. Honeywell is a diversified corporation with many business lines, one of which is security and automation solutions for residential and commercial applications, including Remote Services for dealer installed security systems.

10. Defendant Icontrol Networks, Inc. is a Delaware corporation with its principal

place of business in Redwood City, California. The company offers connected home management software solutions, including Remote Services software for dealer installed security systems.

11. Defendant Alarm.com Holdings, Inc. is a Delaware corporation with its principal place of business at in Tysons, Virginia. Its operating subsidiary Alarm.com Incorporated is a Delaware Corporation with the same principal place of business in Tysons, Virginia. The two will be referred to collectively in this Complaint as "Alarm.com." Alarm.com sells solutions that connect a broad array of "smart-home" and security devices, including Remote Services software for dealer installed security systems.

12. On or about June 23, 2016, it was announced that Alarm.com would acquire two of Icontrol's business divisions for $140 million, including Icontrol's Connect division. The acquisition would result in Alarm.com assuming ownership and control of Icontrol's Remote Services platform, eliminating Icontrol as an independent Remote Services competitor.

JURISDICTION AND VENUE

13. This action is brought under Section 16 of the Clayton Act, 15 U.S.C. § 26, seeking to enjoin defendants from violating Section 7 of the Clayton Act, 15 U.S.C. § 18. This violation threatens to substantially lessen competition in the relevant market and exclude Honeywell from competition. This action is also brought under Section 1 of the Sherman Antitrust Act, 15 U.S.C. § 1, because the planned acquisition of Icontrol would be effectuated through a contract, combination, or conspiracy that unreasonably restrains trade.

14. This Court has jurisdiction because this case is brought to enforce the federal antitrust laws, 15 U.S.C. § 26, presents a substantial federal question, 28 U.S.C. § 1331, and protects "trade and commerce against restraints and monopolies." 28 U.S.C. § 1337.

15. Defendants Icontrol and Alarm.com sell their products and services in interstate

commerce, transact business in this district, and can be found in this district. Defendants Icontrol and Alarm.com are subject to the personal jurisdiction of this Court. Venue is therefore proper in this district both under 15 U.S.C. § 22 and under 28 U.S.C. § 1391.

BACKGROUND

The Industry and the Relevant Market

16. A security system typically consists of four hardware components: (1) sensors that initiate the alarm; (2) a control panel that directs pre-programmed system actions; (3) a keypad or panel that arms and disarms the alarm; and (4) annunciation and communication equipment that creates a visible and/or audible alert and sends a message to a monitoring station. A fifth component, software, is necessary to connect and operate today's increasingly complex security systems.

17. The sensors can include: sensors that determine if a door or window is opened; motion sensors; cameras; glass breakage sensors; fire detectors and many other sensors. The sensors may be connected to the control panel by wires, or wirelessly.

18. The control panel is the computer that arms and disarms the security systems, communicates with each installed component, sounds the alarm when a security zone is breached, and communicates with an alarm monitoring company.

19. The keypad or arming panel allows the security system user to arm or disarm the alarm as well as perform other control functions.

20. The annunciation equipment alerts the user that the alarm has been triggered. The alert can be in the form of a bell or siren, or more often an electronic communication that an alarm has been triggered. The alarm is also communicated to a remote monitoring station.

21. Security systems come in two categories: unmonitored and professionally monitored. When the sensor is triggered on an unmonitored system, a high-decibel alarm sounds

(provided one is installed) or sends alerts via phone or email. Contacting police, fire, or other emergency response personnel must be initiated by the homeowner by dialing the appropriate number, typically 911. Many unmonitored systems are installed by the consumer ("DIY").

22. Approximately 22 million people in the United States choose to protect their homes with a professionally monitored alarm system. When an intruder sets off the alarm, a signal is relayed to a central monitoring station. The central monitoring station then coordinates an emergency response, *e.g.*, alerting local law enforcement. The service for relaying the signal from the alarm to the central monitoring station is called Alarm Signal Transport. Every user of a professionally monitored alarm system utilizes the Alarm Signal Transport service.

23. Approximately a third of the professionally monitored alarm system users (7 million) also sign up for an additional offering—Remote Services. Remote Services consist of a software platform that remotely connects the professionally monitored alarm system and other connected "smart-home" devices, such as thermostat and lights. Thanks to this service, the alarm system owner can control the security hardware (alarm system) and connected smart-home devices remotely through his smartphone or computer. For instance, the alarm system owner can disarm the alarm as he is driving up to his house. The alarm system owner can also use the Remote Services platform to create automated routines involving the alarm system and other household devices. For example, the alarm system owner may program the system to turn on all the lights in the house when the alarm is triggered.

24. Professionally monitored security systems can be installed by vertically integrated companies or by security system dealers.

25. A few companies, primarily cable and telecommunications operators, are vertically integrated providers: they install the alarm system, provide or contract for Alarm

Signal Transport to connect the alarm to the central monitoring station, and offer proprietary Remote Services to connect the alarm and other household devices via smartphone or computer.

26. Most customers, however, procure professionally monitored alarm systems through security system dealers rather than vertically integrated providers. The largest security system dealer by a large margin is ADT.

27. A security system dealer helps the homeowner select the hardware (*i.e.*, the alarm system), arranges for the Alarm Signal Transport service connecting the alarm to the central monitoring station, and offers the homeowner the choice to purchase Remote Services for an additional monthly fee. The homeowner usually does not pay the entire cost of the alarm system upfront, but rather enters into a long-term contract and agrees to pay the security dealer a monthly subscription fee that covers both the cost of the hardware (whatever portion was not covered by the upfront fee) and the service. The Remote Services provider bills the security system dealer, and the dealer incorporates the cost of Remote Services into the overall monthly fee.

28. Smaller dealers may either sell security systems independently, or participate in a larger dealer's program. Under a dealer program arrangement, the larger dealer will typically handle the back office functions and alarm monitoring, and provide the smaller dealers with a selection of authorized products and services to sell to homeowners.

29. In the United States, approximately 5.3 million customers purchase Remote Services through a security system dealer.

30. Remote Services sold through a security system dealer are the relevant product market in this case. Remote Services offered by vertically integrated providers are not available to security system dealers. If the merged company raises the price on Remote Services, security

system dealers cannot switch to vertically integrated companies' product.

31. Remote Services providers make their offerings available to security systems dealers throughout the nation, and the United States is the relevant geographic market. If discovery reveals that competitive conditions for the provision of Remote Services vary by region or locale, Honeywell reserves the right to allege separate smaller geographic markets.

32. Alarm.com controls approximately 38% of this market. Icontrol controls approximately 32%. The merged company will dominate the market with a 70% share.

33. Honeywell is a smaller player in the Remote Services market—its Total Connect offering has a 12% share. Remaining competitors account for approximately 18% of the market.

Barriers to Entry

34. It is difficult for new firms to enter the market for the provision of Remote Services sold through a security system dealer.

35. Remote Services software is time-consuming and expensive to develop. Honeywell developed its closed-architecture offering, Total Connect, over a period of years, and has added to it over time.

36. Intellectual property is another important barrier to entry. Incumbents, most prominently Alarm.com and Icontrol, hold patents on many different technologies that are used in Remote Services platforms. Icontrol claims it has "more than 30 connected home-related patents issued and more than 100 patents pending." After settling patent litigation by cross-licensing each other the disputed intellectual property, the merging parties both hold many important patents for cloud-based monitoring, management, and integration of security and home automation services. As described in paragraphs 63-64 of the Complaint, Alarm.com and

Icontrol use their intellectual property aggressively to thwart potential competitors.

37. Another important barrier to entry is that it is difficult to convert existing Remote Services customers to a new platform. Customers initially sign a long-term contract with the dealer to pay the cost of security equipment installation over a period of time. Customers cannot switch Remote Services providers during the life of that contract. Unless a customer is dissatisfied with his current Remote Services platform after the contract expires, there is little reason to switch providers. Switching is inconvenient from a customer's perspective. Most security system dealers offer only one Remote Services platform.[1] Therefore, in order to switch platforms, a customer would typically need to terminate the relationship with his existing dealer and have a different dealer either install a system that comes with the Remote Services platform desired by the customer or modify the existing system. Few customers switch providers. Consequently, only a small portion of the market is available to a new entrant. Winning enough customers to reach viable scale is very challenging.

38. Smaller security system dealers find it costly to offer multiple Remote Services platforms, and generally only offer one. Offering one platform is efficient from the dealer's perspective because it is costly to train technicians to support multiple platforms, stock spare parts for multiple platforms, and integrate multiple platforms into the dealer's Customer Relationship Management ("CRM") and Enterprise Resource Planning ("ERP") systems that are used for customer billing and account management. Consequently, it is unlikely that a new entrant would be able to convince a dealer to carry the entrant's platform in addition to the

[1] Larger dealers who authorize smaller dealers to sell security systems on their behalf may authorize two or more Remote Services platforms, so as to attract more participating dealers who may have preferences for different platforms. The smaller dealers actually selling and installing the security system, either independently or as part of a dealer program, still typically offer only one Remote Services platform.

dealer's existing Remote Services offering. An entrant would need to either (i) convince the dealer to drop his current offering and transition to the entrant's offering, at considerable cost and risk to the dealer, or (ii) partner with a new dealer entrant who is not attached to any existing Remote Services offering. In sum, finding distribution is very difficult for a new Remote Services entrant.

Open and Closed Architecture

39. The majority of security system dealers work with one of three Remote Services providers: Alarm.com, Icontrol or Honeywell. A few large dealers may support multiple Remote Service providers. Such dealers typically sell through a network of smaller dealers, and each of these smaller dealers typically selects just one Remote Services platform to offer to potential customers.

40. Remote Services providers use one of two types of software systems: open architecture or closed architecture. Platforms using open architecture can connect to security hardware (sensors and control panels) that are manufactured by parties other than the Remote Services provider. Platforms using closed architecture connect only to security hardware that is manufactured by the same company that provides the Remote Services.

41. Alarm.com and Icontrol use open architecture. Consequently, a customer can use their Remote Services software to connect security hardware manufactured by other companies.

42. Currently, Honeywell uses closed architecture. Consequently, a customer can only use Honeywell Remote Services software if he also uses a Honeywell alarm system. The one exception to this is ADT. At ADT's request, Honeywell invested significant resources and time into making the hardware systems it sells to ADT compatible with Icontrol Remote

Services. ADT offers Icontrol Remote Services but wanted to offer Honeywell security hardware. So Honeywell and Icontrol worked together for several months and devoted significant resources to making Honeywell's hardware interoperate with Icontrol's Remote Services platform.

43. Honeywell has explored the possibility of moving to an open structure and developed concrete plans to do so. Honeywell already partners with some smart-home device manufacturers, making Honeywell's Remote Services platform compatible with certain third-party locks, lights, and thermostats. It has made plans to open its system to third party security hardware manufacturers as well so as to give customers the option to use Honeywell security hardware with third party Remote Services and vice versa. Honeywell has looked closely at both organic development and outside acquisitions as potential strategies for expanding into open architecture.

44. The vast majority of Remote Services competitors comprising the remaining 18% of the market use closed architecture.

THE INJURY TO COMPETITION

45. The merger would create a company with 70% share in the market for Remote Services sold through a security system dealer, and nearly 100% share in the open architecture space. "Courts generally require a 65% market share to establish a *prima facie* case of market power." *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1206 (9th Cir. 1997).[2]

[2] Of course, even mergers resulting in far lower market share are presumed to be illegal. "[A] merger which produces a firm controlling an undue percentage share of the relevant market, and results in a significant increase in the concentration of firms in that market, is so inherently likely to lessen competition substantially that it must be enjoined in the absence of evidence clearly showing that the merger is not likely to have such anticompetitive effects… Without attempting to specify the smallest market share which would still be considered to threaten undue concentration, we are clear that 30% presents that threat." *United States v. Phila. Nat'l Bank*, 374 U.S. 321, 363–64 (1963)

Market power is "the power to raise prices or exclude competition." *Am. Steel Erectors v. Local Union No. 7, Int'l Ass'n of Bridge, Structural, Ornamental & Reinforcing Iron Workers*, 815 F.3d 43, 61 (1st Cir. 2016)

46. The Herfindahl-Hirschman Index ("HHI") is a measure of market concentration utilized by the Federal Trade Commission and Department of Justice and generally accepted by the courts. According to the government, an HHI of 2500 or greater indicates a "highly concentrated" market. "Mergers resulting in highly concentrated markets that involve an increase in the HHI of more than 200 points will be presumed to be likely to enhance market power." U.S. Dep't of Justice and the Fed. Trade Comm'n, *Horizontal Merger Guidelines* (2010) ("HMG").

47. District courts within the Third Circuit have credited HHI analysis as "support[ing] the conclusion that defendants' acquisition creates an impermissible increased concentration in the relevant markets." *Tasty Baking Co. v. Ralston Purina, Inc.*, 653 F. Supp. 1250, 1265 (E.D. Pa. 1987).

48. The proposed merger in this case would result in concentration levels and increases in concentration that far exceed the thresholds at which mergers are presumed to enhance market power and injure competition. The post-merger market concentration would be 5,098[3] (2,500 is sufficient for presumption of competitive harm). The merger increases the HHI by 2,432 (an increase of 200 would have been sufficient for presumption of competitive harm).

49. The accretion of market power would allow the merged firm to raise prices to

[3] HHI calculation uses market shares of the firms competing in the relevant market as an input. As detailed in the Background section of the Complaint, Honeywell's internal business documents identifying the following shares for the relevant market: Alarm.com - 38%; Icontrol - 32%; Honeywell - 12%; Other - 18%. For the purposes of calculating the HHIs, an assumption was made that the 18% "Other" category was comprised of 6 firms each having 3% share. This assumption is not material to the results of the analysis.

customers as well as to hamper Honeywell's ability to compete effectively in the provision of Remote Services. The two effects are inextricably linked. By weakening its largest remaining competitor, the merged firm would tighten its grip on the market even further, enhancing its power to raise price to customers and to further foreclose competitors such as Honeywell.

50. The merger would injure Honeywell in at least three different ways.

51. ***First***, the merger would allow Alarm.com/Icontrol to thwart Honeywell's ability to establish or maintain interoperability with third party hardware and device manufacturers.

52. This will both stymie Honeywell's efforts to open its platform to third party security hardware and interfere with Honeywell's ability to connect its platform to other manufacturers' smart-home devices.

53. An open architecture Remote Services provider must be able to interconnect its software platform with third party security hardware (alarm sensors and panels).

54. As a result of the merger, a very large share of Remote Services will be provided by a single company. Security hardware and smart-home device manufacturers can be expected to want to make their products compatible with the dominant Remote Service platform. But then they will have to choose whether to invest additional time and money to make their products compatible with the Honeywell and other Remote Services software platforms. As a result of the merger, these third parties will be able to reach a significant share of the Remote Services customers by interconnecting with the one dominant firm. Incentive to invest in interoperability with multiple players will greatly diminish. Firms that do not currently interoperate with Honeywell will have little reason to invest in creating interoperability; and device manufacturers that currently interoperate with Honeywell will have less reason to invest resources into maintaining interoperability.

55. The diminished incentive for third parties to invest in interoperability with Remote Services providers other than Alarm.com would be exacerbated by Alarm.com's own incentive and ability to use its power to choke off any potential source of competition. Alarm.com would be able to use its dominant share to encourage or demand that third party manufacturers interoperate exclusively with Alarm.com. No third party player could risk its business relationship with the firm controlling nearly 100% of the open architecture space. The merged firm would be able to exercise its influence unchecked to bind third parties to its platform to the exclusion of any potential rival.

56. Without operability with third party hardware and devices, Honeywell and other potential open architecture competitors do not stand a chance of successfully competing in the Remote Services market.

57. The merged firm would be able to use its leverage in subtler and more difficult-to-detect ways as well. Rather than demanding full exclusivity, the firm may press third party manufacturers to provide it with smaller yet still important advantages: early release for updates, preferential service and support, or unique functionality.

58. Absent the merger, Honeywell stood poised to open its platform to third party security hardware, through either organic development or acquisition of the necessary assets. There would have been at least three substantial open architecture competitors: Alarm.com, Icontrol, and Honeywell. Entry also would have remained possible for others.

59. With the merger, the combined Alarm.com / Icontrol firm would foreclose Honeywell's transition to open architecture. Instead of three open architecture alternatives and genuine competition, there would be one dominant firm exercising monopoly power over customers and stymieing any nascent competitive threat.

60. The merged firm would also impede Honeywell's ongoing efforts to make its platform interoperable with third party smart-home device manufacturers. If Honeywell's ability to connect to third party locks, lights, and thermostats is diminished, its security system will be less attractive to customers and it will be a weaker Remote Services competitor.

61. Not only would the merged firm have ability and incentive to block competitors from entering the open architecture space, such conduct would be in keeping with the parties' premerger behavior.

62. Premerger, Alarm.com and Icontrol lacked the market dominance to demand that third parties refuse interoperation to rivals. But the companies did have another tool to exclude competitors, and they used this tool aggressively.

63. Both merging parties possess intellectual property pertaining to Remote Services. Both parties used this intellectual property as a weapon of exclusion. In 2013, for instance, on information and belief, Alarm.com sued Telular for patent infringement after it launched a competing service in conjunction with Icontrol. Telular's service was designed to work with 2Gig security and automation hardware, which previously used exclusively Alarm.com Remote Services. Alarm.com used intellectual property litigation as a tool to attempt to keep that relationship exclusive and shut out a potential competitor.

64. Icontrol also used intellectual property as a bludgeon to keep rivals out of open architecture. Icontrol has been waging a protracted litigation battle against Zonoff. Specifically, it was reported in the trade press that Icontrol stepped up litigation pressure with additional infringement claims in response to Zonoff making inroads with ADT, an important Icontrol customer. On information and belief, after Icontrol ramped up its patent offensive, Zonoff failed to win the ADT business.

65. The merging parties have a history of using the tools available to them to shut out would-be rivals. The merger would give the parties a new and decisive tool for exclusionary action: market dominance that can sway third party ecosystem participants. Given the power of this tool, the parties' incentives to perpetuate and exercise market power, and the parties' historical actions, there is little doubt about this tool being used. The merging firm would have the means to entrench its dominance, to the detriment of consumers and aspiring rivals such as Honeywell.

66. ***Second***, the merger would allow Alarm.com/Icontrol to weaken Honeywell by undermining Honeywell's commercial relationship with a very important customer, ADT, the largest independent security system dealer and thus an important reseller of security system hardware. This would cripple Honeywell as a Remote Services competitor. It would also hurt consumers by removing Honeywell's ability to act as a competitive constraint on the merged firm's power to raise prices.

67. Currently, ADT purchases Remote Services from Icontrol and hardware (alarm systems) from multiple sources including Honeywell.

68. While Honeywell's hardware generally only works with Honeywell Remote Services software at the present, Honeywell has made an exception for one important customer and has invested in making the alarm systems it sells to ADT interoperable with the Icontrol Remote Services software ADT uses.

69. The process of making hardware interoperable with third party software is technically difficult, costly, and time-consuming. It also requires close cooperation between the hardware (alarm system) manufacturer and software (Remote Services) developer. By withholding such cooperation, in part or in full, the Remote Services provider can degrade the

hardware manufacturer's ability to connect to the Remote Services platform.

70. It took Honeywell approximately nine months, and a substantial investment of financial, technical, and human resources, to enable interoperability with the Icontrol platform.

71. After the merger, ADT plans to transition from Icontrol to Alarm.com software. Alarm.com has announced that if the Icontrol transaction closes, it will serve as the exclusive provider of Remote Services for ADT's professionally installed residential interactive security, automation and video offerings for a period of up to five years. Honeywell's alarm systems are not currently interoperable with Alarm.com Remote Services software. Another lengthy, costly, and difficult project would be required to establish interoperability.

72. The merged company would have the ability to thwart the effort to establish interoperability. Alarm.com can refuse to cooperate outright. It can also sabotage the project in myriad ways that are subtler and more difficult to detect: by committing fewer resources than necessary, by withholding critical information from Honeywell, by making design decisions that hamper interoperability with Honeywell hardware, and more.

73. Before the merger, Icontrol's and Alarm.com's ability to engage in this conduct was checked by competition. If Icontrol imposed unreasonable terms or refused cooperation, Honeywell could partner with another large open architecture provider, Alarm.com. And if Icontrol made it unduly difficult for a security system dealer to use Icontrol Remote Services in conjunction with another manufacturer's alarm system, the security system dealer could replace Icontrol with Alarm.com.

74. The merger eliminates the competition that checked this anticompetitive conduct. If the dominant merged firm takes steps to make interoperability difficult or impossible for a hardware manufacturer such as Honeywell, neither Honeywell not the security system dealer

(ADT) will have the choice of selecting another viable open architecture Remote Services platform.

75. Not only does the merger greatly enhance the merged firm's ability to hurt Honeywell by degrading or eliminating interoperability with Honeywell hardware, it also increases the incentive to do so.

76. On information and belief, premerger Icontrol had no stake in any professionally monitored alarm system manufacturer. There was no possibility of Icontrol degrading interoperability with Honeywell hardware in order to drive ADT to select hardware that was owned by Icontrol.

77. By contrast, on information and belief, Alarm.com has a financial interest in alarm system manufacturer Qolsys. The merged company will have an incentive to divert ADT hardware sales away from Honeywell and toward Qolsys. Control over interoperability gives the merged company the means to do so.

78. Additionally, the merged company would have an incentive to work with hardware manufacturers who do not also compete with it in the Remote Services market, such as 2Gig or Tyco rather than with a hardware manufacturer that is a potential Remote Services rival, such as Honeywell. From the merged company's perspective, partnering with hardware-only companies is preferable because there is no chance that these companies will promote their own Remote Services to ADT, thus putting competitive pressure on the merged company's Remote Services offering. By contrast, the merged company sees Honeywell as more of a competitive threat to its core Remote Services business and thus has less reason to partner with Honeywell.

79. As a direct consequence of the merger, Alarm.com / Icontrol thus would have both ability and incentive to steer the ADT alarm system business away from Honeywell.

80. The merged company's interference with Honeywell's hardware sales to ADT would hurt competition in the Remote Services, because it would weaken Honeywell as a competitor in that market.

81. ADT accounts for a significant portion of Honeywell's hardware sales. Termination or diminution of the commercial relationship would result in drastic reduction of Honeywell's installed base and revenue stream.

82. With a smaller installed base and reduced revenues, Honeywell's home security business would have less ability to invest in product development and upgrades, including for Remote Services software. It would also have less capacity to undertake the substantial investment that would be needed to attempt to break into the open architecture space.

83. As Honeywell is forced to cut back its investment in the business, a vicious cycle unfolds. With reduced investment, Honeywell cannot keep up with the rapid pace of technological development in the Remote Services space; it falls behind in the upgrade cycle. This makes Honeywell less attractive to customers, causing it to lose sales and further diminishing the installed base and revenue stream. Of course, this further reduces Honeywell's capacity to invest in the business. It's a downward spiral that leads to the elimination of Honeywell as a viable competitor in Remote Services, cementing Alarm.com/Icontrol's monopoly power and removing the vestiges of any competitive constraint on the merged firm's ability to raise prices.

84. Thus, Alarm.com / Icontrol would have the ability and incentive to use the market power they acquire through their illegal merger to neuter Honeywell as a competitor, which would lead to further accretion of power to raise prices to consumers.

85. ***Third***, the merger will allow Alarm.com/Icontrol to leverage its newfound power

to harm Honeywell's relationship with other security dealers as well. Again, weakening Honeywell will help the merged firm minimize further the competitive pressure it faces post-merger, leaving it with even more power to extract supracompetitive prices.

86. Large dealers, such as MONI, frequently sell systems through a dealer program. Smaller participating dealers create new customer accounts by selling and installing security systems to homeowners, and then sell these accounts to the large dealer who will service and support those account for the duration of the contract or as long as the customers continue to pay and keep the service. Large dealers that sell through such programs may have both Alarm.com/Icontrol Remote Services and Honeywell Remote Services on their list of authorized products.

87. After the merger, Alarm.com will be virtually the only Remote Services platform to offer dealers an open architecture. Dealers who want or need to install security systems with security hardware from one manufacturer and a Remote Services platform from a different company will have no reasonable alternative to the merged firm.

88. Alarm.com will have tremendous leverage over a large dealer that offers multiple different systems for sale through its dealer program. If Alarm.com pulls its offerings or withdraws support, the smaller dealers participating in the program who prefer offering open architecture systems will lose that option, and will have to switch to a different dealer's program. Prior to the merger, the large dealer could simply replace Alarm.com with Icontrol, but the merger removes that option and leaves the dealer at Alarm.com's mercy.

89. Alarm.com will be able to use this leverage to disadvantage Honeywell in any dealer programs where both Honeywell and Alarm.com Remote Services are available. Alarm.com will be able to condition availability of it offerings of subtler inducements on the

dealer either removing Honeywell offerings from the authorized list of products.

90. Alarm.com may also utilize tactics that are less blatant and more difficult to detect and remedy. Instead of forcing the dealer to remove Honeywell products outright, it may pressure the dealer running the program to steer the participating dealers toward marketing Alarm.com product in preference of Honeywell products. The dealer running the program may steer by offering participating dealers better financial terms, higher level of marketing support, or other incentives to sell Alarm.com and not Honeywell.

91. The result of such conduct will be Honeywell losing market share to Alarm.com, and the merged firm extending its dominance.

92. Moreover, as described *supra*, as Honeywell loses revenue and sales volume, it will be forced to retrench investment in its platform. A vicious cycle unfolds: the more sales Honeywell loses, the less attractive its product becomes, causing it lose yet additional sales.

93. Declining sales also raise Honeywell's per unit costs by eliminating its ability to obtain volume discounts on necessary inputs, such as Alarm Signal Transport. Telecommunications companies offer substantial volume discounts for the service of transporting the signal from the alarm system to the central monitoring station. With Honeywell forced to price higher to cover its rising costs, the merged firm is free to raise its own prices. And as Honeywell's rising costs make it less competitive and the installed base shrinks further, the vicious cycle unfolds, leading to Honeywell's marginalization or demise and Alarm.com/Icontrol's unchallenged dominance.

94. Alarm.com can squeeze out or at least severely disadvantage its sole remaining significant competitor, and reap at its customers' expense the ill-gotten rewards from the reduced competition.

95. As described in the preceding paragraphs, the merger will grievously and perhaps fatally diminish Honeywell's capacity to compete in the market for the provision of Remote Services to security system dealers.

96. Alarm.com and Icontrol may close their merger imminently unless immediately restrained and thereafter enjoined by the Court.

97. After the merger closes and the companies comingle their businesses, unwinding the transaction becomes extremely difficult. At that point, any court would be hard pressed to provide a remedy that undoes the harm unleashed by the merger. Stopping the merger will prevent competitive harm, waiting to undo a consummated merger is highly unlikely to do so. Procedure other than by notice of motion, in the form emergency injunctive relief, is necessary to avoid imminent harm.

VIOLATIONS ALLEGED

CLAYTON ACTION, SECTION 7, 15 U.S.C. § 18

98. Honeywell hereby incorporates by reference paragraphs 1 through 97 as though alleged herein.

99. The effect of the proposed acquisition may be substantially to lessen competition, or tend to create a monopoly, in interstate trade and commerce in the relevant markets in violation of Section 7 of the Clayton Act, 15 U.S.C. § 18.

100. Alarm.com and Icontrol are engaged in interstate commerce.

101. The relevant product markets include at least the market for Remote Services sold through a security system dealer. The relevant geographic market for the market for Remote Services sold through a security dealer are the United States and each local market in which Alarm.com and Icontrol compete.

102. The market for Remote Services sold through a security system dealer is

concentrated, and the transaction would further substantially increase concentration in the relevant product and geographic markets.

103. The transaction would increase the likelihood that Alarm.com could raise prices and engage in exclusionary conduct that harms Honeywell and other Remote Services competitors.

104. Barriers to entry are high, and new entry would not be timely, likely or sufficient to replace the competition that would be lost as a result of the merger.

105. The proposed transaction would result in injury to consumers and competition.

106. The proposed transaction would result in injury in fact to Honeywell.

107. Because Honeywell's injury would flow from the reduction in competition caused by the merger, as well as from anticompetitive acts made possible by the illegal transaction, the injury to Honeywell would constitute antitrust injury.

108. Honeywell would suffer irreparable injury if the merger were completed, and is entitled to injunctive relief.

SHERMAN ACT, SECTION 1, 15 U.S.C. § 1

109. Honeywell hereby incorporates by reference paragraphs 1 through 97 as though alleged herein.

110. The contract to acquire Icontrol is a contract in unreasonable restraint of trade and unenforceable because it eliminates a significant rival in a non-trivial transaction. The elimination of competition by agreement between significant rivals, neither of which is a failing company and both of which are vibrant, efficient, experienced, and financially able competitors is unlawful, against the public policy of the United States, and *ipso facto* null and void. As a contract in unreasonable restraint of trade it therefore is a violation of Section 1 of the Sherman

Act, 15 U.S.C. § 1.

111. Because Honeywell's injury would flow from the reduction in competition caused by this unreasonable restraint of trade, as well as from anticompetitive acts made possible by the illegal transaction, the injury to Honeywell would constitutes antitrust injury.

112. Honeywell would suffer irreparable injury if the merger were completed, and Honeywell is entitled to injunctive relief.

PRAYER FOR RELIEF

For all the reasons stated above, Honeywell respectfully requests that the Court enter judgment in its favor and against Defendants and grant the following relief:

A. Enter a judgment declaring that Alarm.com's proposed acquisition of Icontrol violates Section 7 of the Clayton Act, 15 U.S.C. § 18, and Section 1 of the Sherman Act, 15 U.S.C. § 1;

B. Enter judgment preliminarily and permanently enjoining Defendants from carrying out the planned acquisition of Icontrol's Connect division by Alarm.com or any other transaction or agreement that would combine any portion of the two companies that provide Remote Services for dealer installed security systems;

C. Award Honeywell its attorneys' fees and costs; and

D. Award Honeywell any and all further relief that the Court deems just and proper.

Dated**:** February 22, 2017

s/ Guy V. Amoresano

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VERIFICATION

I, Inder Reddy, Vice President General Manager of Intrusion and Residential Solutions for Plaintiff Honeywell International, Inc., have read the foregoing Verified Complaint and the allegations contained therein. I declare under penalty of perjury that the allegations contained therein are true and correct, except as to those allegations that are made upon information and belief. As to the allegations made upon information and belief, I believe those to be true.

Inder Reddy

Executed on February 21, 2017